U.S. Department of Agriculture
Office of the Secretary

Everyone always begins a speech, or its elite cousin, a lecture, by saying it's an honor to be wherever they are and speaking to whomever is in the audience.

Probably no one much believes it anymore.

But "Honor" is too small a word to describe how I felt when I was asked to give the keynote address for the 1979 George Aiken Lectures. George Aiken is a name, and a man, as much--or more--revered in Washington as he is here in his native, and much beloved, Vermont.

He was already a legend and a hero to many folks years ago when I worked as a staff member on Capitol Hill. I know he was to me. And let me tell you, a rock-ribbed Republican Yankee from Vermont is not your regular, run-of-the-mill hero to a nice Democratic girl from Little Rock.

It is a privilege, Sir, to speak on a program that bears your name.

I want to assure you that Senator Aiken's remarkable 34-year record of service in the U.S. Senate is being continued in truly exemplary fashion by your present member of the Senate Agriculture Committee, Senator Parick Leahy. He and Congressman James Jeffords on the House Agriculture Committee continue a Vermont Congressional agricultural tradition dating back to 1859 when Vermont Senator Justin Smith Morrill first introduced the legislation which established land grant colleges. That long association with American agriculture is a fitting tradition in a state which prides itself on being the most rural in the nation.

Remarks prepared for delivery by Carol Tucker Foreman, Assistant Secretary of Agriculture for Food and Consumer Services at the George D. Aiken Lecture Series, University of Vermont, Burlington, Vermont, March 26, 1979

I want the Senator and Mrs. Aiken, and all of you, to know that I am on my very best behavior tonight. There's a reason for that--aside from the seriousness of the occasion.

When I wrote the President of the University accepting his kind invitation to speak here tonight, I made a smart remark about his forsaking the desert and cactus of Arizona for the snows of Vermont.

He didn't respond directly to that remark when he wrote back. There was, of course, a pointed reference in his letter to "We Vermonters." And then shortly thereafter Washington had the worst snowstorm in 20 years.

Now that I'm a guest in the Coors' home, I intend to say or do nothing that will cause Burlington to suffer storm, fire, or flood during my stay. Nor to have it follow me back to D.C.

Food and agriculture are much in the news these days. Grass is springing up in Washington, where just a month ago it seemed that only tractors grew on the Mall. The AAM was there to protest inadequate return on their farm investment. They say they're going out of business by raising food so cheaply.

The CPI announcement last Friday told consumers all over the country what most of us already knew--that the cost of food is leaping out of sight and out of hand.

Food processors say they could do a better job if it weren't for government regulations.

More and more Americans are seeking diet information and trying to improve their general health through improved nutrition.

When Lattie Coor and I were students at Washington University, a friend wrote a paper on the politics of agriculture and I assure you it was just about production agriculture--not about food or nutrition or marketing or safety. It was unusual for a student at an urban school to get into such a subject.

Today, that wouldn't be unusual. But then the paper probably wouldn't be limited to production politics either. Today's food debate, influenced by prices and nutrition and the scope of government regulation, has grown to include not just production and farm income policies, but the whole scope of the food economy from production to consumption.

It seems a perfect time to devote a series of lectures to the problems of food: cash, calories and controvery.

I believe the goal of food policy should be to assure an adequate supply of safe, nutritious food at reasonable prices and to provide assistance to those at home and abroad who can't afford an adequate diet even at reasonable prices. That goal won't arouse much argument but the public policy means to achieving it has and will continue to stir some heavy debate.

I have no final solutions or grand designs to achieve the goal, but I can describe some of the general problems in the food arena and relate some of the things the Carter Administration is doing to overcome them and to move toward a rational food policy.

We must understand, of course, that the problems we suffer in the food sector today are overwhelmingly influenced by and can't be separated from the problems of our economy and society as a whole.

Farm production costs and food prices are influenced by world energy problems.

Public policy solutions are limited by a distrust of government.

The times seem to demand some changes in the system, but a multitude of individuals and groups have strong interests in maintenance of a myriad of the status quos.

With all those caveats stated, let me try to describe where we are going in our attempt to secure an adequate supply of safe, nutritious food at reasonable prices.

First of all, it is clear that we won't have an adequate food supply unless farmers can gain a decent return for producing food.

We're making progress on that front.

Last year net farm income reached the second-highest level in history. On-and-off-farm income set a new record. U.S. farmers exported more of their products than ever before. Stronger farm prices and expanded sales meant farmers increased their total equity by 11 percent.

The farm index, farm income levels, sales totals, equity figures--a whole array of statistical evidence--show that 1978 was a good year for farmers in general.

But if you are a farmer who lives in an area plagued by drought in 1978;

if you are a cash grain farmer still struggling to extricate yourself from the results of the disastrous Russian wheat deal of 1972;

if you are a farmer who had three or four years so bad that one good year isn't enough;

if you are any one of a number of specific exceptions to the general pattern of economic advancement, then the statistics aren't worth a hoot and a holler.

It's like the "safe" medicine that only causes heart disease in one out of every million patients. If you're the one with cardiac arrest, it hardly matters that the odds were heavily in your favor. And you are easily forgiven for being more concerned with your own plight than with the good health of the other 999,999.

The medicine hasn't been invented, nor the law written, which benefits each and every individual every single time it's used. Pencillin has saved millions of lives since Sir Arthur Fleming poked around at that hunk of mold in 1940. It has also caused severe allergic reactions in some people.

Few would suggest it shouldn't be used. Similarly, it flies in the face of reason to make major changes in a farm program which has:

-- increased farm prices by 25 percent;

-- increased net farm income to $28.1 billion, the second highest on record, and

-- chalked up a new record of $27.3 billion in farm export sales, without which the balance of payments deficit would have been even more staggering.

Farmers and the Carter Administration can take pride in the fact that the wise use of farm programs, the set-asides, and the loan and reserves, have turned the farm income situation around.

Securing food at a reasonable price is a more elusive goal these days. Food prices have increased 3 percent so far in 1979. In 1978 they went up 10 percent. The outlook for the next several months isn't promising.

What's happening in food prices? Well, farm income is up as I just pointed out and that increases food prices.

The government continues to support milk prices at 80 percent of parity. We have announced our intention to support higher sugar prices and to limit imports of beef. All of those actions provide some security to farmers. They are viewed as justifiable tradeoffs for secure production. They also lead to increased prices. The USDA is projecting a 9 percent increase in food prices in 1979. Our best estimate is that 4 percent of that will be due to increases in farm prices. The other 5 percent will be due to increases in the marketing bill. And that increase, over the past few years, has been largely responsible for the continuing food price spiral. The marketing bill is the difference between what consumers pay and farmers receive for U.S. farm foods. That bill went from $31.5 billion in 1953 to an estimated $140 billion in 1978--an increase of 344 percent.

While it is true that this change reflects the cost of marketing increased quantities of food, there have also been increases in the per unit costs as well. In 1950, food marketing costs were 1-1/2 times the farm value of food. In 1978, marketing costs were more than 2/1-4 times the farm value.

The major cost factors in the marketing bill are labor, processing, packaging, transportation, and profits.

First, labor costs account for about half of the total marketing bill. The labor bill reflects the total cost of labor that goes into processing, wholesaling and retailing of food. It is large, in part, because it stretches across most of the spectrum. It is also where the impact of general inflation is clearly stamped, because wage increases largely reflect the increases in the cost of living. In the decade between 1967 and 1977, labor costs made up 50 percent of the total increase in the cost of marketing farm-produced food products.

What can we do about it? First, efforts to control inflation generally will help. Second, in the long run, labor-saving technology should increase productivity and have a significant impact on labor-related costs. But we may have to choose, in the short run, whether we wish to live with some of the luxuries we have built into the food marketing system that reduce productivity.

For example: in 1928, stores handled an average of 867 items. By 1950, the number was 3,750. Today, the supermarket shopper is typically confronted with a dazzling array of more then 11,000 different food items. Supermarkets have tended to open earlier and close later. Costs for labor and electricity increase. The entire store must be lighted and heated or cooled. There has to be a basic staff on duty, even if there are only 3 shoppers in the store at 11 p.m. or on Sunday morning.

Yet as more women go to work, more of us need to shop at these odd hours. The American public may want to reexamine food store luxuries in light of food price increases.

The second cost factor is processing. Although there is some evidence that Americans are eating more fresh fruits and vegetables than in the immediate past, much of the food supply is made up of processed foods. Once again, as more women go out to work, the demand for convenience foods grows and the cost increases along with the convenience.

Many of the costs involved in processing are hidden in the labor statistics, but there are some structural changes which could affect not only food marketing costs but the availability of food and related services as well.

The growth of conglomerates in the food industry is barely 20 years old and its effect on food prices is a subject of some speculation. Many economists believe that higher levels of conglomeration drive prices upward.

Another structural change--this one in retailing--is the growth in sales by fast food outlets, a growth much greater than for other segments of the total food market. While food store sales increased by 118 percent in the last decade, fast food sales increased more than five-fold, from $2.8 billion in 1967 to $17.9 billion in 1977.

There are strong indications that the fast food market will continue to grow at a faster rate than the general one, putting upward pressure on prices for the commodities and procesed foods used by the fast food chains. That doesn't bode well for the price of hamburger, among other things.

The third and fourth factors in the marketing bill, packaging and transportation, both more than doubled in cost between 1967 and 1977. Both are heavily dependent upon energy costs and the uncertain outlook on energy prices makes it difficult to forecast future trends. There is certainly room for increased efficiency. Proposed modifications in federal transportation law, including deregulation of trucking, may be of some help in offsetting increased energy prices.

Food packaging, which is often a form of sales promotion as well as a container, cost consumers $16 billion in 1977. Frankly, I'm not sixteen billion dollars worth of wild over Count Chocula's grizzly grin. I trust he wasn't the inspiration for putting my picture on the Aiken Lecture cereal box.

Packaging, too, seems to offer opportunities for savings in the food bill. We often find containers that are sacks within boxes within paper wrapping.

Finally, profits before taxes for firms marketing U.S. farm-produced foods totaled $8.5 billion in 1977--or 6.6 percent of the total food marketing costs. While profits increased by 150 percent between 1967 and 1977, it is only fair to point out that they stil accounted for less than 8 percent of the increase in the food marketing bill during the same period.

I am concerned with the evidence which suggests that in some food markets, where competition is low, firms may be charging higher prices than can be supported by their costs. A recent study prepared for the Joint Economic Committee of Congress found that in metropolitan markets dominated by fewer than four firms, consumers were likely to pay up to 8 percent more for grocery items than in more competitively structured markets.

I believe government must do more to encourage price competition. The Carter Administration has begun to do so with a program of careful monitoring of food prices and merger activity. Last Saturday the President announced that his inflation fighters will publicly name firms exceeding guidelines and it has been proposed such firms be denied Federal contracts.

The FTC is also beginning an active competition program.

What all these cost factors add up to is the fact that since 1973, three-fourths of the increase in food prices has occurred <u>after the food has left the farm</u>. In 1978, two-thirds of every dollar spent for U.S. farm-raised foods went to pay the bill for getting the food from the farm to the supermarket.

It seems to me, that although there is no one action that will resolve the problems of increases in the marketing bill, public and private action could bring small changes in each of the above areas and result in total significant savings.

Where does all this leave the embattled American consumer? Well, the good news is that Americans in general spend a smaller percentage of their dollar for food than just about any other people anywhere.

I grant you that is small comfort for the shopper faced with the prospect of paying upwards of $2.50 for a single pound of round steak, as some economists predict.

Although none of us is entirely free from the painful effects of food price inflation, there are groups among us for whom it is disastrous.

For many Americans food continues to be a relatively small percentage of total income. But low-income Americans may spend as much as 40 percent of their disposable income for food.

Most Americans may fight inflation by shifting to cheaper cuts of meat or from beef to poultry. The poor and those on fixed incomes may find the choice to be much more painful. It may mean not eating enough or not at all. It may mean the difference in winter between heating and eating. To demand such choices in our affluent society is intolerable.

Ten years ago, medical specialists and nutritionists revealed to a shocked public that widespread hunger existed in America. A White House conference on hunger led by Jean Mayer proposed methods to fight this blight. New assistance programs were developed to aid the poor. Recently, a decade later, another group of specialists went back to those hunger ravaged areas. They found vast improvements. The greatest reason for that improvement is the food stamp program. Food stamps work. They have helped the poor achieve an

adequate diet. At the beginning of this Administration, President Carter proposed to Congress major reforms to make the program more available to the poorest of the poor, to make it work better, to eliminate fraud and abuse.

Studies indicated that many people who were eligible for food stamps were too poor to participate in the program. They were too poor to come up with the cash to purchase them. We proposed to eliminate the purchase requirement in order to let the poorest in. At the same time, we proposed to cut off those recipients with the highest incomes. Congress approved the program and it went into effect in most states on January 1.

We were right. There were many people who were too poor to buy into the program. And we were right in believing that many of that group lived in rural areas. Since the new program began, many thousands of poor, rural people have come into the program. Virtually no new recipients are being enrolled in New York and Detroit. We were wrong about two things though. There appear to be more of these poorest of the poor than we expected and they are poorer than we anticipated. The new enrollments are coming in greater numbers and the benefits are larger than we expected.

The attempt to serve these people and raging food price inflation are combining to threaten the food stamp program and its recipients.

When Congress passed the Food Stamp Act of 1977, it placed a ceiling on the total amount of money that can be used each year.

They based the ceiling on estimates from the Congressional Budget office as to what funding would be necessary to serve the anticipated number of recipients. They then added a margin for safety and set the ceiling.

The trouble is that their estimates were based on an increase in food prices of 3 percent per year and an unemployment rate of 5.5 percent. They were wrong--and the results may be disastrous.

Each 1 percent increase in the consumer price index for food raises the cost of the food stamp program by $50 million. Congress must now increase the ceiling or we must reduce, across the board, the benefits paid to food stamp recipients. Those benefits at the present time average 30 cents per person per meal. Studies show that fewer than 10 percent of people spending for food at that level get 100 percent of the Recommended Dietary Allowances. To reduce benefits further in the face of food price inflation would be inexcusable.

At the same time, you have a right to demand careful, honest and frugal administration of the food stamp program. To achieve this the Carter Administration will submit to Congress, along with its request not to reduce benefits, extensive proposals for reduction of fraud and error in the program.

There is abroad in the land today, a great desire to cut government spending. You might say that the rest of the country is catching up with the historically careful and frugal ways of New England. However, everyone I have run into is very anxious that government spending cuts begin with something other than their favorite program.

-- Educators want to fight inflation but not by cutting education grants.

-- Hospital administrators want to fight inflation but not by limiting hospital costs.

-- Agricultural Extension agents and land grant universities want to fight inflation but not by limiting increases for extension and agricultural research.

Before I am accused of singing the same song, let me point out that the Carter Administration's FY 1980 budget calls for over $700 million in cuts for domestic food assistance programs. We have applied those cuts primarily by better program administration and by reducing benefits to middle income families.

Our plea in response is for assistance from the public and the Congress to maintain benefit levels for those Americans who depend upon the food stamp program for their basic nutritional needs. It is hard to justify those programs which support adequate agricultural production and result in increased food prices without taking the additional step of providing assistance to those for whom increased prices will mean hunger. The Carter Administration will seek those increases.

The poor are not the cause of inflation and the poor should not be asked to bear its burden alone or disproportionately.

My reference a moment ago to the syndrome of "fight inflation but don't start with me" is reflected in another national mania these days--the desire to fight inflation by reducing government regulation. Food is not exempt from that mania.

As prices generally have gone upward, we have heard more and more about the costs added by government regulatory reguirements.

Virtually everyone in the food industry today, from farmers to retailers, wants to reduce Federal regulation. They should have great support for that. But I defy you to get all of the interested parties together and get them to agree on which regulations should go.

The fact is that just about <u>every</u> segment of society is very protective of <u>some</u> government regulations--those which subsidize, lend, guarantee, insure, or inform to <u>their</u> benefit. It's only when the other guy is being protected, informed, or insured that regulation becomes the Dracula of the marketplace, siphoning the life-blood of the free enterprise system and causing everything from inflation to the common cold.

Commodity groups do not rage about reducing the Federal budget if it means reducing the volume of USDA commodities purchased for the school lunch program. Dairy farmers have not clamored to be "freed" from the milk marketing and price support regulations.

When Congress legislated dairy price supports, it did so for the perfectly legitimate purpose of bringing stable or increased income to dairy farmers. There is nothing wrong with that. It means higher retail prices, of course; but on the other hand, economic failure and inadequate production and/or competition benefits no one--neither producer nor consumer. It is an example of economic regulation to assure adequate supply. But it is government regulation.

Meat packers have vigorously opposed USDA suggestions that we eliminate an enormous paperwork burden on them by dropping a weekly reporting form. It turns out that they feel they need that information and trust its veracity only if it is collected by the government.

One would assume that a proposal to move Federal meat inspection from an antiquated and expensive system, in which a Federal inspector oversees each step in meat processing, to a system where an inspector reviews plant quality control records would be greeted with cheers by the meat industry. But that's not the case. At the present time the public is paying for industry quality control and many packers do not wish to have that burden shifted from the taxpayer to themselves.

In general, I think it's fair to say that industry has supported economic regulation and opposed regulations dealing with health and safety, particularly if the result of the economic regulation is to hold <u>prices</u> at high levels and if the health and safety regulations impose added <u>costs</u>.

Airlines fought to keep the regulation of the CAB, and the trucking industry has geared up to fight its de-regulation by the ICC. There aren't, however, many industry lobbyists who are dedicated to retaining the regulatory authority of OSHA or EPA.

In other words, the fight over regulation tends to revolve around keeping the regulations we do like and getting rid of those we don't. Or as an HEW bureaucrat once said, "where you stand depends upon where you sit."

What I seek here is an intelligent and rational response on regulation. Economic regulation can play a valuable role in assuring an adequate supply of goods or services, especially in a natural monopoly situation. Health and safety regulation plays a crucial role in providing adequate information to consumers and in preventing the costs to society of harmful drugs, foods and chemicals.

What we all have a right to expect is rational regulation; regulation that is neither unnecessarily expensive nor intrusive; regulation that is adopted only after careful consideration of what the impact wil be on the affected industry and the public at large.

There are regulatory idiocies and I did not come here to defend them. I think we should do our regulating better. We are trying.

First, the President has created a Regulatory Council, made up of representatives from 35 federal agencies, set up to:

-- coordinate federal regulatory activities;

-- manage the entire regulatory process more efficiently and effectively, and

-- ensure that statutory goals are met in a cost-effective manner.

For the first time, the public, the Congress, and the regulating agencies themselves will have an overview of the major regulatory actions being considered throughout the government.

Second, President Carter has issued an Executive Order requiring improvements in regulation and just today he forwarded to Congress legislative proposals to improve the regulatory system through sunset laws, reduced paperwork burdens and increased public participation.

Perhaps government has not always performed its regulatory responsibilities as wisely or as well as we might wish. But we are moving to correct error, eliminate waste and duplication, and make the process more efficient and effective.

Nor should regulation be unnecessarily costly. There's a great deal being written these days about the cost of regulation. Just last week the Business Roundtable released a study claiming that the regulatory policies of six federal agencies cost 48 corporations a total of $2.6 billion in 1977. (I have to tell you that USDA was <u>not</u> one of the six agencies.)

Well, regulatory programs do cost money. But how do you count the cost? And the benefits?

Let me point out that the Roundtable study did not differentiate between that economic regulation which reduces competition, and health and safety regulation which protects lives.

The figures on cost do not include the value of lives and limbs saved because unsafe foods and machines were "regulated" out of the marketplace.

They don't take into account the billions of dollars in public and private funds which would have been spent to repair people who were unnecessarily injured or damaged, but for regulatory intervention.

Their bookkeeping counts up the money we <u>have</u> spent. It does not count up the money we did <u>not</u> spend to repair the consequences of careless stewardship of the public health and safety.

I'm sure some people may have enjoyed FDA's problems with the saccharin controversy. The legal and health issues involved were widely misunderstood. There was a lot of laughter over the cartoons of rats so stuffed with diet cola that they could barely waddle.

But it was the same FDA and essentially the same regulatory process that kept thalidomide off the market and spared this country who knows how many thousands of deformed children. It's pretty hard to measure that cost and factor it into the ledgers.

The Business Roundtable didn't mention the facts that:

-- Automobile safety devices such as seat belts, collapsible steering wheels, interior padding, and head restraints are saving an estimated 9,000 lives per year.

-- The 835,000 American workers who are exposed to lead in the course of their jobs have been protected by a rule reducing the allowable exposure by 75 percent.

-- Because of water pollution regulations, salmon are swimming in the Connecticut River for the first time since the 18th century.

-- Food inspection programs have virtually reduced food borne illness in this country. No visions of <u>The Jungle</u> dance through our heads today.

Has the cost of Health and Safety Regulation been the inflationary ogre depicted in lobbying campaigns? I don't believe that case can be supported.

The Council on Wage and Price Stabilization estimates that the inflationary impact of <u>all</u> federal regulatory efforts adds seven-tenths of one percent to the Consumer Price Index. By standard economic measures, any conceivable modification of federal environmental and health regulations would produce no significant reduction in the overall CPI.

That does not, however, stop some segments of the food industry from seeking to block new health and labeling requirements by appealing to growing public fears about inflation.

There is no precedent in American history for a decade of inflation such as we have just experienced. In the past, periods of rapid economic expansion generally were followed by periods of contraction, in which prices and interest rates came down, or at least leveled off. But the inflation that began during the Vietnam War has continued since the war's end--and at record levels.

Inflation is best understood as an increase in price without a corresponding increase in real value. As long as the full benefits of health and safety regulation exceed its full costs--and I believe that is the case--they cannot be considered truly inflationary.

The Council of Economic Advisers makes the same point in its 1978 Economic Report to the President, noting that insofar as federal regulatory efforts "result in improvements in public well-being, we may simply have taken part of our productivity gains in forms that are not measured by the gross national product."

Health and safety regulations generally, and food safety regulations specifically, have, over the years, contributed immeasurably to "improvements in the public well-being," cash and controversies notwithstanding.

Not all my news and views are positive tonight. Inflation in food prices, unequal distribution of dollars within the system, and increasing food assistance costs are very real problems.

But I believe the United States food system is equal to the challenge of meeting the goal of an adequate supply of safe, nutritious food at reasonable prices.

If we can get general inflation under control, I think we can move toward that goal. We can do it

-- by building on farm price stability made possible by the 1977 Farm Act;

-- by re-examining the market system to find the inefficiencies and luxuries we may no longer be able to afford;

-- by improvements in the regulatory system, and

-- by more rational and active participation in the public policy process by people such as yourselves.

Adlai Stevenson once said that "Government is like a pump, and what it pumps up is just what we are--a fair sample of the intellect, the ethics, and the morals of the people; no better, no worse."

Government's role in the cash, calories and controversies of our food will be better if you get involved.

Thank you.

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